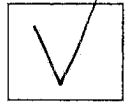


**ARIZONA CORPORATION COMMISSION**  
**UTILITIES DIVISION**

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY



W-01651B  
Vail Water Company  
1010 N. Finance Center Dr., Ste 200  
Tucson, AZ 85710

**ANNUAL REPORT**  
**Water**

**FOR YEAR ENDING**

12	31	2009
----	----	------

FOR COMMISSION USE

ANN 04	09
--------	----

3-2-10

## COMPANY INFORMATION

**Company Name (Business Name)** VAIL WATER COMPANY, INC.

**Mailing Address** 1010 N. FINANCE CENTER DR., #200  
(Street)

TUCSON  
(City)

AZ  
(State)

85710  
(Zip)

520-571-1958

520-571-1961

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Cell No. (Include Area Code)

**Email Address** \_\_\_\_\_

**Local Office Mailing Address** 1010 N. FINANCE CENTER DRIVE, #200  
(Street)

TUCSON  
(City)

AZ  
(State)

85710  
(Zip)

520-571-1958

520-517-1961

Local Office Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Cell No. (Include Area Code)

**Email Address** KVOLPE@ESTESCO.NET

## MANAGEMENT INFORMATION

☐ **Regulatory Contact:** CHRISTOPHER VOLPE

☐ **Management Contact:** CHRISTOPHER VOLPE

Vice President/Treasurer

1010 N. FINANCE CENTER DRIVE  
(Street)

TUCSON  
(City)

AZ  
(State)

85710  
(Zip)

520-571-1958

520-571-1961

Telephone No (Include Area Code)

Fax No. (Include Area Code)

Cell No (Include Area Code)

**Email Address** KVOLPE@ESTESCO.NET

**On Site Manager:** MANNY OROS  
(Name)

14155 E. VIA RANCHO DEL LAGO  
(Street)

VAIL  
(City)

AZ  
(State)

85641  
(Zip)

520-647-3679

520-647-3825

520-730-4730

Telephone No (Include Area Code)

Fax No. (Include Area Code)

Cell No (Include Area Code)

**Email Address** OPERATOR@VAILWATER.COM

**Statutory Agent:** DAVID MCEVOY

4560 E CAMP LOWELL

(Street)

(Name)

TUCSON

(City)

AZ

(State)

85712

(Zip)

520-326-0133

Telephone No (Include Area Code)

520-326-5938

Fax No. (Include Area Code)

Cell No. (Include Area Code)

**Attorney:** ANDREA L. GONZALES

(Name)

2 E. CONGRESS

(Street)

TUCSON

(City)

AZ

(State)

85701

(Zip)

520-202-7338

Telephone No (Include Area Code)

520-202-7339

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Email Address \_\_\_\_\_

## OWNERSHIP INFORMATION

Check the following box that applies to your company:

☐ Sole Proprietor (S)

☐ C Corporation (C) (Other than Association/Co-op)

☐ Partnership (P)

☒ Subchapter S Corporation (Z)

☐ Bankruptcy (B)

☐ Association/Co op (A)

☐ Receivership (R)

☐ Limited Liability Company

☐ Other (Describe) \_\_\_\_\_

## COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

☐ APACHE

☐ COCHISE

☐ COCONINO

☐ GILA

☐ GRAHAM

☐ GREENLEE

☐ LA PAZ

☐ MARICOPA

☐ MOHAVE

☐ NAVAJO

☒ PIMA

☐ PINAL

☐ SANTA CRUZ

☐ YAVAPAI

☐ YUMA

☐ STATEWIDE

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			-
302	Franchises			-
303	Land and Land Rights	17,750		17,750
304	Structures and Improvements	399,328	89,279	310,049
307	Wells and Springs	1,126,979	366,572	760,407
311	Pumping Equipment	1,548,478	476,668	1,071,810
320	Water Treatment Equipment			-
330	Distribution Reservoirs and Standpipes	1,621,069	248,997	1,372,072
331	Transmissions and Distribution Mains	13,822,489	2,024,518	11,797,971
333	Services	12,451	12,451	-
334	Meters and Meter Installations	883,826	138,741	745,085
335	Hydrants	477,958	47,030	430,928
336	Backflow Prevention Devices	7,901	5,936	1,965
339	Other Plant and Misc. Equipment	6,553	6,553	-
340	Office Furniture and Equipment	47,916	18,629	29,287
341	Transportation Equipment	54,807	47,249	7,558
343	Tools, Shop and Garage Equipment			-
344	Laboratory Equipment			-
345	Power Operated Equipment			-
346	Communication Equipment			-
347	Miscellaneous Equipment			-
348	Other Tangible Plant			-
	<b>TOTALS</b>	20,027,505	3,482,623	16,544,882

This amount goes on the Balance Sheet Acct. No. 108



**CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR**

<b>Acct. No.</b>	<b>DESCRIPTION</b>	<b>Original Cost (1)</b>	<b>Depreciation Percentage (2)</b>	<b>Depreciation Expense (1 x 2)</b>
301	Organization			
302	Franchises			
303	Land and Land Rights	17,750		-
304	Structures and Improvements	399,328	2.80%	11,181
307	Wells and Springs	1,126,979	3.20%	36,063
311	Pumping Equipment	1,548,478	3.60%	55,745
320	Water Treatment Equipment			
330	Distribution Reservoirs and Standpipes	1,621,069	2.00%	32,421
331	Transmissions and Distribution Mains	13,822,489	2.00%	276,450
333	Services	12,451	3.30%	-
334	Meters and Meter Installations	883,826	3.60%	31,818
335	Hydrants	477,958	3.60%	17,206
336	Backflow Prevention Devices	7,901	3.60%	284
339	Other Plant and Misc. Equipment	6,553	3.60%	-
340	Office Furniture and Equipment	47,916	6.80%	3,258
341	Transportation Equipment	54,807	13.30%	7,289
343	Tools, Shop and Garage Equipment			
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	<b>TOTALS</b>	<b>20,027,505</b>		<b>471,717</b>

This amount goes on the Comparative Statement of Income and Expense

Acct. No. 403

### BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	<b>CURRENT AND ACCRUED ASSETS</b>		
131	Cash	\$ 248,764	\$ 777,618
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	146,348	148,172
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	-	676,847
174	Miscellaneous Current and Accrued Assets	67,876	62,420
	<b>TOTAL CURRENT AND ACCRUED ASSETS</b>	\$ 462,988	\$ 1,665,057
	<b>FIXED ASSETS</b>		
101	Utility Plant in Service	\$ 20,002,665	\$ 20,027,505
103	Property Held for Future Use		
105	Construction Work in Progress	69,613	69,613
108	Accumulated Depreciation - Utility Plant	(3,019,252)	(3,482,623)
121	Non-Utility Property	3,023,462	2,506,995
122	Accumulated Depreciation - Non Utility		
	<b>TOTAL FIXED ASSETS</b>	\$ 20,076,488	\$ 19,121,490
	<b>TOTAL ASSETS</b>	\$ 20,539,476	\$ 20,786,547

**NOTE:** The Assets on this page should be equal to **Total Liabilities and Capital** on the following page.

### BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	<b>CURRENT LIABILITIES</b>		
231	Accounts Payable	\$ 88,410	\$ 128,845
232	Notes Payable (Current Portion)		
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	856,196	771,031
236	Accrued Taxes		
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities		
	<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 944,606</b>	<b>\$ 899,876</b>
	<b>LONG-TERM DEBT (Over 12 Months)</b>		
224	Long-Term Notes and Bonds		
	<b>DEFERRED CREDITS</b>		
251	Unamortized Premium on Debt	\$ -	\$ -
252	Advances in Aid of Construction	14,295,779	14,070,394
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction		
272	Less: Amortization of Contributions		
281	Accumulated Deferred Income Tax		
	<b>TOTAL DEFERRED CREDITS</b>	<b>\$ 14,295,779</b>	<b>\$ 14,070,394</b>
	<b>TOTAL LIABILITIES</b>	<b>\$ 15,240,385</b>	<b>\$ 14,970,270</b>
	<b>CAPITAL ACCOUNTS</b>		
201	Common Stock Issued	\$ 638,099	\$ 638,099
211	Paid in Capital in Excess of Par Value	2,445,314	2,445,314
215	Retained Earnings	2,215,678	2,732,865
218	Proprietary Capital (Sole Props and Partnerships)		
	<b>TOTAL CAPITAL</b>	<b>\$ 5,299,091</b>	<b>\$ 5,816,278</b>
	<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$ 20,539,476</b>	<b>\$ 20,786,547</b>

**COMPARATIVE STATEMENT OF INCOME AND EXPENSE**

<b>Acct. No.</b>		<b>PRIOR YEAR</b>	<b>CURRENT YEAR</b>
	<b>OPERATING REVENUES</b>		
461	Metered Water Revenue	\$ 1,998,526	\$ 2,057,806
460	Unmetered Water Revenue		
474	Other Water Revenues	380,349	312,501
	<b>TOTAL REVENUES</b>	\$ 2,378,875	\$ 2,370,307
	<b>OPERATING EXPENSES</b>		
601	Salaries and Wages	\$ 277,656	\$ 250,245
610	Purchased Water	-	
615	Purchased Power	167,459	211,964
618	Chemicals	2,250	2,638
620	Repairs and Maintenance	80,351	30,235
621	Office Supplies and Expense	67,957	67,226
630	Outside Services	428,046	417,170
635	Water Testing	13,107	14,624
641	Rents	24,698	15,275
650	Transportation Expenses	28,803	19,557
657	Insurance - General Liability	63,756	44,652
659	Insurance - Health and Life	27,170	21,389
666	Regulatory Commission Expense - Rate Case	2,389	8,568
675	Miscellaneous Expense	194,219	165,808
403	Depreciation Expense	470,736	471,717
408	Taxes Other Than Income		
408.11	Property Taxes	133,730	132,873
409	Income Tax		
	<b>TOTAL OPERATING EXPENSES</b>	\$ 1,982,327	\$ 1,873,941
	<b>OTHER INCOME/EXPENSE</b>		
419	Interest and Dividend Income	\$ 81,812	\$ 50,089
421	Non-Utility Income	22,749	114,961
426	Miscellaneous Non-Utility Expenses		
427	Interest Expense	(11,415)	(4,229)
	<b>TOTAL OTHER INCOME/EXPENSE</b>	\$ 93,146	\$ 160,821
	<b>NET INCOME/(LOSS)</b>	\$ 489,694	\$ 657,187



COMPANY NAME	Vail Water Company	2009
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**SUPPLEMENTAL FINANCIAL DATA**

**Long-Term Debt**

	<b>LOAN #1</b>	<b>LOAN #2</b>	<b>LOAN #3</b>	<b>LOAN #4</b>
Date Issued				
Source of Loan				
ACC Decision No.				
Reason for Loan				
Dollar Amount Issued	\$ -	\$ -	\$ -	\$ -
Amount Outstanding	\$ -	\$ -	\$ -	\$ -
Date of Maturity				
Interest Rate	%	%	%	%
Current Year Interest	\$ -	\$ -	\$ -	\$ -
Current Year Principal	\$ -	\$ -	\$ -	\$ -

Meter Deposit Balance at Test Year End      \$      771,031

Meter Deposits Refunded During the Test Year      \$      196,000

COMPANY NAME	Vail Water Company	2009
Name of System:	ADEQ Public Water System Number:	10041

## WATER COMPANY PLANT DESCRIPTION

### WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (Gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-625703	100	600	614	12	8	1974
55-087817	200	700	759	14	8	1981
55-087816	300	1200	845	14	10	1981
55-087814	300	975	924	14	8	1981

\* Arizona Department of Water Resources Identification Number

### OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
N/A		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
10	3	413	
20	6		
25	4		
30	7		
50	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
600,000	1		
550,000	1		
500,000	2		
290,000	1		
100,000	2		

***Note: If you are filing for more than one system, please provide separate sheets for each system.***

COMPANY NAME	Vail Water Company	2009
Name of System:	0	ADEQ Public Water System Number: 10041

### **WATER COMPANY PLANT DESCRIPTION (CONTINUED)**

#### **MAINS**

Size (in inches)	Material	Length (in feet)
2		5,434
3		
4		55,658
5		
6		159,396
8		162,005
10		16,830
12		115,138

#### **CUSTOMER METERS**

Size (in inches)	Quantity
5/8 X 3/4	3,657
3/4	
1	21
1 1/2	21
2	38
Comp. 3	2
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

**For the following three items, list the utility owned assets in each category.**

**TREATMENT EQUIPMENT:**

ACCUTAB TABLET CHLORINATION SYSTEM WITH A .2 RESIDUAL  
OF CALCIUM HYPOCHLORIDE

**STRUCTURES:**

ADMINISTRATIVE OFFICE 57x35 1995 SQ FT STEEL BUILDING

**OTHER:**

N/A

***Note: If you are filing for more than one system, please provide separate sheets  
for each system.***

COMPANY NAME	Vail Water Company	2009
Name of System	0	ADEQ Public Water System Number (if applicable) 10041

### WATER USE DATA SHEET BY MONTH FOR CALENDER YEAR 2008

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	3,667	21,657	23,382	0
FEBRUARY	3,667	23,281	25,098	0
MARCH	3,691	22,422	24,239	0
APRIL	3,687	26,584	29,076	0
MAY	3,688	32,161	34,011	0
JUNE	3,701	32,671	36,414	0
JULY	3,695	32,703	34,744	0
AUGUST	3,690	33,806	37,633	0
SEPTEMBER	3,702	34,046	35,387	0
OCTOBER	3,729	29,680	27,392	0
NOVEMBER	3,734	31,869	34,493	0
DECEMBER	3,739	23,972	26,110	0
TOTALS --->		344,852	367,979	0

**What is the level of arsenic for each well in your system.**

*(If more than one well, please list each separately)*

Well 1	n/a	mg/l
Well 2	n/a	mg/l
Well 3	0.004	mg/l
Well 5	0.002	mg/l
Well 6	0.002	mg/l
Well 8	0.004	mg/l

**If system has fire hydrants, what is the fire flow requirement?** 1,100 GPM for 2 hrs

**If system has chlorination treatment, does this treatment system chlorinate continuously?**

( ☒ ) Yes ( ☐ ) No

**Is the Water Utility located in an ADWR Active Management Area (AMA)?**

( ☒ ) Yes ( ☐ ) No

**Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?**

( ☒ ) Yes ( ☐ ) No

**If yes, provide the GPCPD amount:** 122pppd

***Note: If you are filing for more than one system, please provide separate sheets for each system.***

COMPANY NAME		Vail Water Company	2009
Name of System	0	ADEQ Public Water System Number (if ap	10041

### UTILITY SHUTOFFS/DISCONNECTS

MONTH		Termination without Notice R14-2-410.B	Termination with Notice R14-2-410.C	OTHER
JANUARY			5	
FEBRUARY			14	
MARCH			19	
APRIL			10	
MAY			14	
JUNE			14	
JULY			12	
AUGUST			9	
SEPTEMBER			11	
OCTOBER			4	
NOVEMBER			4	
DECEMBER			1	
TOTALS --->		0	117	0

OTHER (description):

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Company Name VAIL WATER COMPANY, INC. YEAR ENDING 12/31/09

**PROPERTY TAXES**

Amount of actual property taxes paid during Calendar Year 2009 was: \$ 132,021

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain below:

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VAIL WATER COMPANY  
1010 N. FINANCE CENTER DR., STE 200  
TUCSON, AZ 85710  
520-571-1358

BANK OF TUCSON  
4400 E. BROADWAY  
TUCSON, AZ 85711

10764

91-556/1221

4/22/2009

PAY TO THE  
ORDER OF

Beth Ford, Pima County Treasurer

\$ \*\*66,490.96

Sixty-Six Thousand Four Hundred Ninety and 96/100

DOLLARS

Beth Ford, Pima County Treasurer  
Pima County Treasurer's Office  
PO Box 29011  
Phoenix, AZ 85038-9011

TWO SIGNATURES REQUIRED

MEMO

010764 122105566 70000003

0006649096

BANK OF AMERICA NA TPE  
122101766 0501 96 P66  
04/30/09

1500000000

0022 30509

FOR DEPOSIT ONLY  
BETH FORD  
PIMA COUNTY TREASURER  
PIMA COUNTY ARIZONA  
TAX COLLECTION  
412-724166

Check # 10764, Posted 05/01/09, Amount \$66,490.96

**Beth Ford**  
Pima County Treasurer



**Patti Davidson**  
Chief Deputy Treasurer

**PIMA COUNTY TREASURER'S OFFICE**

**PIMA COUNTY TAX RECEIPT**

VAIL WATER CO  
1010 N FINANCE CENTER DR STE 200  
TUCSON AZ 85710-1357

THIS IS YOUR RECEIPT FOR PAYMENT(S) OF 2008 REAL ESTATE TAXES

BOOK MAP PARCEL  
305 04 001L

TOTAL TAX ASSESSED  
\$ 191.29

DATE  
4/30/2009

**PAYMENTS**

PAYMENT DATE	DESCRIPTION	TAX PAID	INTEREST PAID	FEES PAID	TOTAL
04/29/2009	SECOND HALF	\$95.64	\$0.00	\$0.00	\$95.64
	TOTAL PAID	\$95.64	\$0.00	\$0.00	\$95.64

**PROPERTY ADDRESS**

13935 E COLOSSAL CAVE RD

**TAX YEAR 2008 BALANCE DUE**

DESCRIPTION	AMOUNT
FIRST HALF TAX DUE	\$0.00
SECOND HALF TAX DUE	\$0.00
NSF FEE DUE	\$0.00
RECLAIMED REFUND DUE	\$0.00
TOTAL AMOUNT DUE	\$0.00

**Thank you for your payment!**

**BETH FORD**  
PIMA COUNTY TREASURER

115 North Church Avenue - Tucson, Arizona 85701-1199 - Phone (520) 740-8341 - Fax (520) 884-4809



**Beth Ford**  
Pima County Treasurer



**Patti Davidson**  
Chief Deputy Treasurer

**PIMA COUNTY TREASURER'S OFFICE**

**PIMA COUNTY TAX RECEIPT**

VAIL WATER CO  
ATTN: CHRISTOPHER VOLPE/VICE PRESIDENT  
1010 N FINANCE CENTER DR STE 200  
TUCSON AZ 85710-1357

**THIS IS YOUR RECEIPT FOR PAYMENT(S) OF 2008 REAL ESTATE TAXES**

BOOK	MAP	PARCEL	TOTAL TAX ASSESSED	DATE
907	52	0000	\$ 132,790.64	4/30/2009

**PAYMENTS**

PAYMENT DATE	DESCRIPTION	TAX PAID	INTEREST PAID	FEES PAID	TOTAL
04/29/2009	SECOND HALF	\$66,395.32	\$0.00	\$0.00	\$66,395.32
	TOTAL PAID	\$66,395.32	\$0.00	\$0.00	\$66,395.32

**PROPERTY ADDRESS**

**TAX YEAR 2008 BALANCE DUE**

DESCRIPTION	AMOUNT
FIRST HALF TAX DUE	\$0.00
SECOND HALF TAX DUE	\$0.00
NSF FEE DUE	\$0.00
RECLAIMED REFUND DUE	\$0.00
TOTAL AMOUNT DUE	\$0.00

**Thank you for your payment!**

**BETH FORD**  
PIMA COUNTY TREASURER

115 North Church Avenue - Tucson, Arizona 85701-1199 - Phone (520) 740-8341 - Fax (520) 884-4809

VAIL WATER COMPANY  
1010 N. FINANCE CENTER DR., STE 200  
TUCSON, AZ 85710  
520-671-1368

401  
305-04-coll et al

BANK OF TUCSON  
4400 E. BROADWAY  
TUCSON, AZ 85711

91-886/1221

11250

10/20/2009

Pima County Treasurer

\$ 65,530.46

6 Thousand Five Hundred Thirty and 46/100

DOLLARS

TWO SIGNATURES REQUIRED

Beth Ford  
Pima County Treasurer  
115 N. Church Ave.  
Tucson, AZ 85701-1199

*[Signature]*  
*[Signature]*

1 half 2009 real property taxes

⑈011250⑈ ⑆122105566⑆ 700⑈000⑈3⑈

⑈0006553046⑈

ENDORSE HERE

FOR DEPOSIT ONLY

BETH FORD  
PIMA COUNTY TREASURER  
PIMA COUNTY ARIZONA  
TAX COLLECTION

DO NOT WRITE BELOW THIS LINE  
IN PENCIL FOR 12-31-10 USE

0000 88332

10/20/09  
BANK OF TUCSON  
122105566

11250, Posted 11/10/09, Amount \$65,530.46

**PIMA COUNTY TREASURER'S OFFICE****TAX PAYMENT RECEIPT**

Paid Date 11/06/2009

Batch Number 1091106094

Paid by Code 01

VAIL WATER COMPANY  
1010 N. FINANCE CENTER DR., STE 200  
TUCSON, AZ 85710

Method Amount

CK \$65,530.46

Total Amount Paid \$65,530.46

Total Tax Amount Paid \$65,530.46

Total Interest Amount Paid \$0.00

Total Refund Due \$0.00

PARCEL NUMBER	TAX PAID	INTEREST PAID	TOTAL PAID	PAYMENT TYPE	LEGAL DESCRIPTION
30504001L	\$99.53	\$0.00	\$99.53	FIRST HALF	PT OF SW4 SE4 LYG N OF & ADJ TO COLOSSAL CAVE RD .50 AC SEC 10-16-16 (WELLSITE)
30504001V	\$11.01	\$0.00	\$11.01	FULL YEAR	CTRL PTN W2 NW4 .28 AC SEC 10-16-16 (11536/1623)
30504001W	\$11.01	\$0.00	\$11.01	FULL YEAR	CTRL PTN S2 NE4 .20 AC SEC 10-16-16
305046280	\$11.01	\$0.00	\$11.01	FULL YEAR	RANCHO DEL LAGO BOOSTER SITE
30506004D	\$11.01	\$0.00	\$11.01	FIRST HALF	N CTRL PTN S2 SE4 .15 AC SEC 4-16-16
305110280	\$16.41	\$0.00	\$16.41	FULL YEAR	WELLSITE BNG W116.16' OF E1230.76' OF S125' OF SE4 SE4 .33 AC SEC 14-16-16 (ACC 0053195-8) TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 075
30512008B	\$15.14	\$0.00	\$15.14	FULL YEAR	SUCCESS 100' X 100' WELLSITE BLK 1 TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 075 (ACC 0053195-8)
305140110	\$15.14	\$0.00	\$15.14	FULL YEAR	TUCSON PARK NO 1 WELLSITE ADJ TO NW LINE LOT 2 TOTAL VALUE OF OPERATING PROPERTY-TAXPAYER GROUP NO 075 (ACC 0053195-8)
30520001C	\$52.06	\$0.00	\$52.06	FULL YEAR	RINCON VIEW ESTATES S125' N140' LOT 1
305392090	\$37.33	\$0.00	\$37.33	FULL YEAR	N100' OF W100' OF E2367' OF NE4 .23 AC SEC 10-17-16 (FORMERLY 305-39-030K) TOTAL VALUE OF OPERATING PROPERTY-GROUP 075 (ACC 0053195-8) (FORMERLY 305-39-0550)
305490270	\$90.88	\$0.00	\$90.88	FULL YEAR	NEW TUCSON UNIT NO 29 LOT 1 BLK 20

02-18-'10 10:12 FROM-ESTES CO				520-571-1961	T-194 P009/011 F-876
305900930	\$15.14	\$0.00	\$15.14	FULL YEAR	VAIL RANCH LOT 0061
907520000	\$65,133.78	\$0.00	\$65,133.78	FIRST HALF	TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 075 (ACC 0053195-8)
30508001D	\$11.01	\$0.00	\$11.01	FULL YEAR	S80' N131.31' W80' E1147.41' NE4 .15 AC SEC 8-16-16

VERIFICATION  
AND  
SWORN STATEMENT  
Taxes

VERIFICATION

STATE OF AZ

I, THE UNDERSIGNED  
OF THE

COUNTY OF (COUNTY NAME)

PIMA

NAME (OWNER OR OFFICIAL) TITLE

KIP VOLPE, VP

COMPANY NAME

VAIL WATER COMPANY

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH

12

DAY

31

YEAR

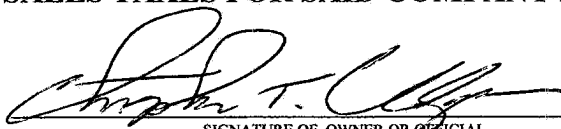
2009

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.



SIGNATURE OF OWNER OR OFFICIAL

520-571-1958

TELEPHONE NUMBER

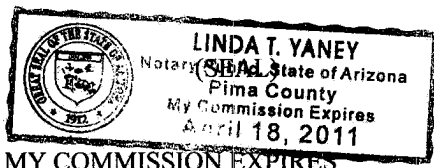
SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF Pima

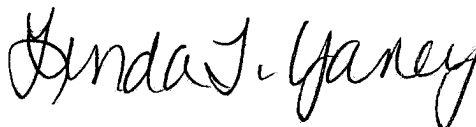
THIS 22nd DAY OF February

MONTH

20 10



MY COMMISSION EXPIRES



Company Name VAIL WATER COMPANY, INC. YEAR ENDING 12/31/09

INCOME TAXES

For this reporting period, provide the following:

Federal Taxable Income Reported	<u>\$0</u>
Estimated or Actual Federal Tax Liability	<u>\$0</u>

State Taxable Income Reported	<u>\$0</u>
Estimated or Actual State Tax Liability	<u>\$0</u>

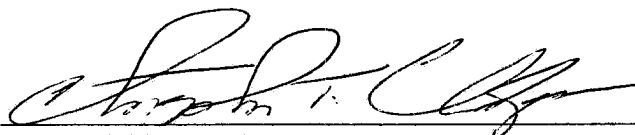
Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	<u>N/A</u>
Amount of Gross-Up Tax Collected	<u>N/A</u>
Total Grossed-Up Contributions/Advances	<u>N/A</u>

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

**CERTIFICATION**

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.

  
**SIGNATURE**

2/22/10  
**DATE**

Christopher T. Volpe  
**PRINTED NAME**

Vice President  
**TITLE**

**VERIFICATION  
AND  
SWORN STATEMENT  
Intrastate Revenues Only**

VERIFICATION

STATE OF \_\_\_\_\_

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME)
NAME (OWNER OR OFFICIAL) TITLE
COMPANY NAME

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2009

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

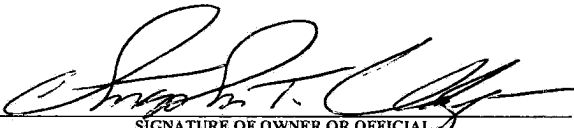
IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2009 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 2,190,011

(THE AMOUNT IN BOX ABOVE  
INCLUDES \$ 132,204  
IN SALES TAXES BILLED, OR COLLECTED)

**\*\*REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

  
SIGNATURE OF OWNER OR OFFICIAL  
520-571-1958 x105  
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

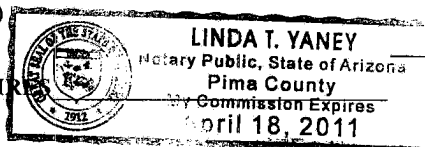
THIS

22nd

DAY OF

COUNTY NAME	<u>Pima</u>	
MONTH	<u>Feb</u>	<u>2010</u>

(SEAL)



MY COMMISSION EXPIRES

  
SIGNATURE OF NOTARY PUBLIC

VERIFICATION  
AND  
SWORN STATEMENT  
RESIDENTIAL REVENUE  
Intrastate Revenues Only

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED  
OF THE

COUNTY OF (COUNTY NAME)	
NAME (OWNER OR OFFICIAL)	TITLE
COMPANY NAME	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION  
FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2009

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

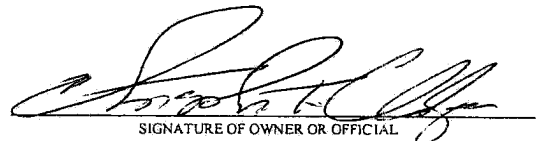
IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2009 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

\$ 1,896,270

THE AMOUNT IN BOX AT LEFT  
INCLUDES \$ 114,533  
IN SALES TAXES BILLED, OR COLLECTED)

\*RESIDENTIAL REVENUE REPORTED ON THIS PAGE  
MUST INCLUDE SALES TAXES BILLED.

  
SIGNATURE OF OWNER OR OFFICIAL

520-571-1958 x105  
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

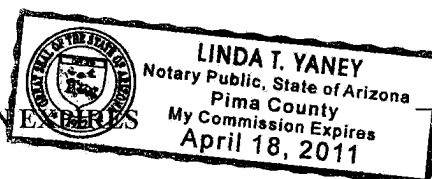
22nd

DAY OF

NOTARY PUBLIC NAME <u>Linda T. Yaney</u>	
COUNTY NAME <u>Pima</u>	
MONTH <u>Feb</u>	, 20 <u>10</u>

(SEAL)

MY COMMISSION EXPIRES



  
SIGNATURE OF NOTARY PUBLIC



**VAIL WATER COMPANY**  
**AUDITED FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

Vail Water Company  
Audited Financial Statements  
December 31, 2009 and 2008

TABLE OF CONTENTS

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Independent Auditors' Report . . . . .	1
Statements of Assets, Capitalization and Liabilities - Income Tax Basis . . . . .	2
Statements of Revenue, Expenses and Accumulated Earnings - Income Tax Basis . . . . .	4
Notes to Financial Statements . . . . .	5

INDEPENDENT AUDITORS' REPORT

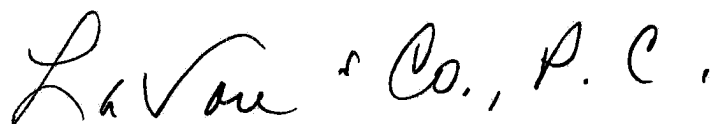
Board of Directors  
Vail Water Company  
Tucson, Arizona

We have audited the accompanying statements of assets, capitalization and liabilities - income tax basis of Vail Water Company (an Arizona S-Corporation) as of December 31, 2009 and 2008, and the related statements of revenue, expenses and accumulated earnings - income tax basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the basis of accounting the Company uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, capitalization, and liabilities of Vail Water Company at December 31, 2009 and 2008 and its revenue, expenses and accumulated earnings for the years then ended, on the basis of accounting described in Note 2.



La Voie & Company, P.C.  
Tucson, Arizona  
February 10, 2010

Vail Water Company

STATEMENTS OF ASSETS, CAPITALIZATION AND  
LIABILITIES - INCOME TAX BASIS

		December 31,	
		2009	2008
<b>ASSETS</b>			
Utility Plant:			
Land	\$	17,750	\$ 17,750
Plant and equipment (Note 3)		20,009,755	19,984,915
Construction work-in-progress (Note 4)		69,613	69,613
Total Utility Plant		20,097,118	20,072,278
Less accumulated depreciation		(4,884,261)	(4,120,581)
Net Utility Plant		15,212,857	15,951,697
Other Assets:			
Water storage and recharge credits (Note 9)		676,847	
Other		3,500	3,500
		680,347	3,500
Current Assets:			
Cash		777,618	248,764
Customer accounts receivable		148,172	146,348
Receivable from annexation group		62,420	67,876
Total Current Assets		988,210	462,988
Noncurrent Assets:			
Money market funds (Note 5)		285,070	362,115
Certificates of deposit (Note 5)		2,218,425	2,657,847
		2,503,495	3,019,962
Total Assets	\$	<u>19,384,909</u>	\$ <u>19,438,147</u>

The accompanying notes are an integral part of these financial statements.

		December 31,	
		2009	2008
<b>CAPITALIZATION &amp; LIABILITIES</b>			
Capitalization:			
Common stock (\$10 par value; 1,000,000 shares authorized; 63,810 shares issued and outstanding)	\$	638,099	\$ 638,099
Capital-in-excess of stated value		2,445,314	2,445,314
Accumulated earnings		<u>1,331,226</u>	<u>1,114,349</u>
Total Capitalization		4,414,639	4,197,762
Current Liabilities:			
Accounts payable and accrued expenses		128,845	88,410
Customer deposits, current portion (Note 6)		<u>153,000</u>	<u>196,000</u>
Total Current Liabilities		281,845	284,410
Customer Deposits, long-term (Note 6)		618,031	660,196
Advances For Construction:			
Line extension agreements (Note 7)		12,488,649	12,642,682
Hook-up fee tariffs (Note 8)		1,161,664	1,204,647
Sub-station advance		30,000	30,000
Annexation participation agreement		<u>390,081</u>	<u>418,450</u>
Total Advances For Construction		<u>14,070,394</u>	<u>14,295,779</u>
Total Liabilities		<u>14,970,270</u>	<u>15,240,385</u>
Total Capitalization and Liabilities	\$	<u>19,384,909</u>	<u>\$ 19,438,147</u>

The accompanying notes are an integral part of these financial statements.

Vail Water Company

STATEMENTS OF REVENUE, EXPENSES  
AND ACCUMULATED EARNINGS  
- INCOME TAX BASIS

	For The Years Ended December 31,	
	2009	2008
Operating Revenue:		
Water sales	\$ 2,096,898	\$ 2,038,164
Fees and other income	269,169	353,231
Total Operating Revenue	2,366,067	2,391,395
Operating Expenses:		
Administrative and general	583,935	739,300
Professional services	431,794	441,153
Depreciation and amortization	660,269	686,097
Purchased power	211,964	167,459
Property and other taxes	132,873	133,730
Repairs and maintenance	17,897	50,891
Other	14,974	31,712
Total Operating Expenses	2,053,706	2,250,342
Income Before Interest Income and Expense	312,361	141,053
Interest Income	48,745	81,812
Interest Expense	(4,229)	(11,415)
Net Income	356,877	211,450
Distributions to shareholders	(140,000)	(300,000)
Accumulated earnings, beginning of year	1,114,349	1,202,899
Accumulated earnings, end of year	<u>\$ 1,331,226</u>	<u>\$ 1,114,349</u>

The accompanying notes are an integral part of these financial statements.

Vail Water Company  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

Note 1 - ORGANIZATION HISTORY AND NATURE OF OPERATIONS

Vail Water Company (the "Company"), formerly known as Del Lago Water Company, was formed on June 10, 1959 as a corporation under the laws of the State of Arizona. The Company is engaged in the regulated utility business of public water supply. The Company is regulated by several Arizona agencies, including the Arizona Corporation Commission (ACC), which has jurisdiction with respect to rates, services, accounting procedures and other matters. The Company is operating under a rate order effective May 1, 2000.

The Company provides groundwater to approximately 3,739 customers in Vail, Arizona. As a consequence of utilizing groundwater, the Company is subject to various water conservation requirements authorized pursuant to the Arizona Revised Statutes 45-566. In addition, the Company has a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America for the purchase of up to 786 acre feet per annum of Central Arizona Project Water. Effective January 1, 2008, the Company entered into a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America, for the purchase of an additional 1,071 acre feet per annum of Central Arizona Project Water. This brings the total per annum acre feet of Central Arizona Project Water to 1,857.

Under a Decision and Order dated November 10, 2005, the Department of Water Resources of the State of Arizona designated the Company as having an assured water supply of 3,749 acre feet. Certain conditions apply including on going reporting by the Company to the Department of Water Resources.

The Company owns nine registered wells, four of which provide water to customers. The Company is dependent upon adequate water sources either from the ground or from purchase of Central Arizona Project Water.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements have been prepared on the basis of accounting that the Company uses to file its income tax return. The basis differs from generally accepted accounting principles (GAAP) in the following ways:

- a) The tax basis of accounting requires that contributions in aid of construction (whether or not made by the utility's shareholders) received after June 12, 1996, are not taxable when received and have a zero tax basis to the Company:
- 1) if not included in the utility's rate base for rate making purposes,
  - 2) if used to acquire or construct property before the end of the second year following receipt of the contribution, and
  - 3) if certain conditions concerning the keeping of records are met.

Vail Water Company  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

For GAAP, a regulated entity should capitalize costs if it is possible that future revenue will be provided to recover the costs and record a liability for revenue that provides recovery of expected future costs. Under GAAP, this deferred revenue, recorded as a liability, should be recognized in income as related costs are incurred.

b) The tax basis of accounting expenses certain costs when paid under the economic performance rules. GAAP accounting requires the recognition of expenses as incurred.

c) The tax basis of accounting uses specific statutory lives for depreciation purposes. GAAP requires assets to be depreciated over the assets' estimated useful lives.

d) The tax basis of accounting uses the direct write-off method for bad debts while GAAP uses the reserve method.

Plant and Equipment - Plant and equipment are stated at cost and are depreciated using straight-line and accelerated methods as allowed by the Internal Revenue Code over statutory lives of the applicable assets (Note 3).

Income Taxes - The stockholders of the Company have elected to have the corporation taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, the separately stated items of income and deductions of the corporation will be reported on the income tax returns of the individual stockholders.

Advances and Contributions in Aid of Construction - Outside parties, generally customers and developers, make payments to the Company to fund certain capital expenditures to provide water to new customers. Amounts received are recorded as liabilities. Generally, as new customers begin to receive service, most of these amounts are refundable for limited periods of times. After the Company has paid all required refunds, the remaining balances are recorded as contributions in aid of construction. Contributions in aid of construction are amortized to income over the lives of the respective plant assets. Nonrefundable amounts received by the Company are recorded as contributions in aid of construction, as discussed under Basis of Accounting, paragraph a), above.

Concentrations of Credit Risk - In the normal course of business, the Company extends unsecured credit to customers.

The Company holds its cash balances in four financial institutions. Accounts at these institutions are insured up to \$250,000 by the FDIC. At December 31, 2009 and 2008, the Company's uninsured bank balances totaled \$1,593,000 and \$2,329,000, respectively.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications - Certain amounts for 2008 have been reclassified to conform to the 2009 presentation.



Vail Water Company  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

Note 3 - PLANT AND EQUIPMENT

Plant and equipment at December 31 consists of:

	<u>2009</u>	<u>2008</u>
Structures and improvements	\$ 399,328	\$ 399,328
Wells and springs	1,126,979	1,126,979
Pumping equipment	1,556,379	1,555,833
Distribution reservoirs and standpipes	1,621,069	1,618,803
Transmission and distribution mains	14,300,447	13,819,494
Hydrants	477,958	474,388
Meters	883,826	873,723
Other equipment and furniture	<u>121,727</u>	<u>116,367</u>
	<u>\$20,009,755</u>	<u>\$19,984,915</u>

Depreciation expense charged to operations was \$772,025 and \$776,382 in 2009 and 2008, respectively.

The lives of plant and equipment for purposes of computing depreciation are:

Utility plant	20 - 40 years
Furniture and fixtures	7 - 10 years
Equipment	5 - 7 years

Note 4 - CONSTRUCTION WORK-IN-PROGRESS

Construction work-in-progress typically consists of water mains, transmission and distribution lines and reservoirs. Construction work-in-progress is funded by advances for construction.

Note 5 - NONCURRENT ASSETS

The money market funds and certificates of deposit are restricted for the following purposes at December 31:

	<u>2009</u>	<u>2008</u>
Hookup tariff (Note 8)	\$ 285,070	\$ 362,115
CAP hookup and service charge (Note 9)	<u>2,218,425</u>	<u>2,657,847</u>
	<u>\$2,503,495</u>	<u>\$3,019,962</u>

Vail Water Company  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

Note 6 - CUSTOMER DEPOSITS

Customers are required to make meter, service line, and guarantee deposits when service is initiated. Meter and service line deposits are subject to the Company's 2000 rate order and are refundable at a rate of 10% per year.

Guarantee deposits are refunded after one year of satisfactory water payments. The guarantee deposits bear interest, which is periodically paid to the customers. Customer deposits at December 31 were:

	<u>2009</u>	<u>2008</u>
Meter	\$694,686	\$783,056
Service line	520	740
Guarantee	<u>75,825</u>	<u>72,400</u>
	771,031	856,196
Less current portion	<u>(153,000)</u>	<u>(196,000)</u>
	<u>\$660,031</u>	<u>\$660,196</u>

The schedule of estimated deposit refunds payable to customers for each of the next five years and in the aggregate, as of December 31, is as follows:

	<u>Annual Refund</u>
2010	\$153,000
2011	69,000
2012	55,000
2013	49,000
2014	45,000
Thereafter	<u>400,031</u>
	<u>\$771,031</u>

Note 7 - LINE EXTENSION AGREEMENTS

Developers and customers, on behalf of the Company, have constructed line extensions to provide service to their property. The Company agrees to refund amounts, up to the cost of such extensions, over 10 to 25 years based upon 10% to 20% of gross annual revenue from water sales to the customers serviced by the lines. At the expiration of this period any unrefunded balance remains with the Company and is classified as contributions in aid of construction. Agreements with remaining balances in the amount of \$172,000 and \$345,000 expired during 2009 and 2008, respectively.

Vail Water Company  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

Note 8 - HOOK-UP FEE TARIFFS

On January 14, 1998, the Arizona Corporation Commission approved an off-site facilities hook-up fee tariff, initially applicable to the south service area, until such time as the north and south systems were physically connected. The interconnection of the two systems was completed and accepted by Pima County DEQ on March 14, 2002. The hook up fee tariff is now being charged throughout the Company's service area. Customers have advanced funds to the Company for these hook-up fees. The fees are a non-refundable charge assessed to new connections requiring a main extension.

Note 9 - CENTRAL ARIZONA PROJECT

As a condition of the May 2000 rate order, the Company agreed to begin recharging its CAP water allocation within six months. As a result of this condition, the Company entered into a contract with the Central Arizona Water Conservation District for the provision of incentive recharge water. The contract is subject to the terms and conditions of the original municipal subcontract entered into between the parties. In order to recover its associated costs, the May 2000 rate order approved a CAP hookup fee of \$1,000 for all new line extensions and subdivisions north of well No. 3, and a CAP service charge of \$.32 per 1,000 gallons of usage that applies to all customers. Following the interconnection of the systems north and south of well No. 3, the CAP hookup fee will also apply to all customers. The Company collected \$93,000 and \$182,000 of CAP hookup fees during 2009 and 2008, respectively. The CAP service charge is to be segregated in an interest bearing account and used solely for the purpose of paying CAP holding and M&I expenses.

The Company has entered into a contract to recharge its entire CAP allocation for the purpose of accumulating long-term storage credits. Excess CAP recharged over current usage accumulates as long-term storage credits. During 2009, the Company purchased 4,000 acre feet of long-term storage credits from the City of Tucson for \$489,000. The Company has 6,418 acre feet of long-term storage credits as of December 31, 2009.

The Company entered into a lease arrangement with Del Lago Golf, LLC, an entity owned by certain shareholders of the Company, to lease 227 and 142 acre feet of long-term storage credits in 2009 and 2008, respectively.

Note 10 - RELATED PARTY TRANSACTIONS

During 2009 and 2008, the Company charged Del Lago Golf, LLC, an entity owned by certain stockholders of the Company, \$83,000 and \$44,000, respectively, for water usage, storage credits, and energy use. The amounts in customer accounts receivable from this entity at December 31, 2009 and 2008 was \$30,000 and \$0, respectively.

Vail Water Company  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

Note 10 - RELATED PARTY TRANSACTIONS (Continued)

The Company has entered into an agreement for management services with a corporation controlled by a stockholder of the Company. The management agreement expired December 31, 2009 and required the Company to pay \$8.50 per customer per month in exchange for certain accounting and administrative functions. Management services paid under the contract for 2009 and 2008, were \$377,000 and \$368,000, respectively. Management services are included in professional services. At December 31, 2009 and 2008, \$32,000 and \$0 respectively, are included in accounts payable and accrued expenses. A new agreement was entered into for 2010 at \$8.50 per customer.

The Company entered into a ten-year ground lease with Del Lago Golf, LLC, an entity owned by certain stockholders of the Company. The lease calls for rate increases of 3% each March 1. Rent expense for 2009 and 2008 was \$6,000.

The Company also rented a backhoe from Del Lago, LLC for 2009 and 2008 in the amount of \$8,000 and \$16,000, respectively.

Note 11 - STOCK TRANSFER RESTRICTIONS

The stockholders have entered into a Stockholders' Agreement, which establishes certain transfer restrictions on the stock of the Company as follows:

- a) Stockholders may not assign, sell, pledge, encumber, give or otherwise transfer, or alienate any shares to another entity if such transfer would revoke the Company's S Corporation tax status.
- b) Stockholders may transfer their shares to, or for the benefit of, an immediate family member subject to certain restrictions of the Agreement.
- c) Stockholders may transfer all or any number of shares to one or more members of the stockholder group.
- d) The Agreement provides certain stock transfer restrictions in the event that a stockholder shall die, become permanently disabled or become subject to another event defined as an Involuntary Lifetime Transfer in the Agreement.

Note 12 - PENSION PLAN

The Company entered into a salary deferral plan under IRC Section 401(k). Participants must be 21 and have six months of service to enter the Plan. The Company made no contributions to the Plan for 2009 or 2008.